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TELEGRAM

April 06, 2004

To: No Action Addressee
Action: Unknown
From: AMEMBASSY ABU DHABI (ABU DHABI 1026 - ROUTINE)
TAGS: PTER, EFIN, ETTC, PREL, PGOV
Captions: None
Subject: SECOND INTERNATIONAL HAWALA CONFERENCE, APRIL 3-5
Ref: None

C O N F I D E N T I A L ABU DHABI 01026

SIPDIS
CXABU:
ACTION: POL
INFO: P/M RSO ECON AMB DCM
Laser1:
INFO: FCS

DISSEMINATION: POL
CHARGE: PROG

APPROVED: DCM: RALBRIGHT
DRAFTED: ECON: CMCRUMPLER
Cleared: NONE

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FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 3856
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNDT/USMISSION USUN NEW YORK 1177
RUEHZN/EUROPEAN POLITICAL COLLECTIVE
RUEHML/AMEMBASSY MANILA 0581
RUEHIL/AMEMBASSY ISLAMABAD 1252
RUEHKA/AMEMBASSY DHAKA 0189
RUEHLM/AMEMBASSY COLOMBO 0087
RUEHNE/AMEMBASSY NEW DELHI 1208
RUEHJA/AMEMBASSY JAKARTA 0056
RUEHKL/AMEMBASSY KUALA LUMPUR 0021
RUEHAK/AMEMBASSY ANKARA 0367
RUEHRI/AMCONSUL RIO DE JANEIRO 0001
RUEATRS/TREASURY DEPT WASHDC
RUEAHLC/HOMELAND SECURITY CENTER WASHINGTON DC
RUEAWJA/DOJ WASHDC
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 ABU DHABI 001026

SIPDIS

STATE FOR NEA/ARP - HEFFERNAN, NEA/RA - SUTPHIN,
EB/ESC/ESP, INL/C, INL/ENT - NOVIS, AND S/CT - REALUYO
TREASURY FOR ENFORCEMENT DAS JUAN ZARATE AND IEA DIRECTOR
BOYLAN, ALSO FOR LONERGAN
TREASURY PASS FINCEN

TREASURY PASS OTA FOR N. WORTHINGTON
TREASURY PASS OFAC FOR NEWCOMB
JUSTICE FOR ASSET FORFEITURE AND ML UNIT EPUTY CHIEF
DAVITT, ALSO TED GREENBERG
JUSTICE PASS OPDAT FOR SILVERWOOD
NSC FOR GARY PETERS

E.O. 12958: DECL: 04/06/09

TAGS: PTER EFIN ETTC PREL PGOV TC

SUBJECT: SECOND INTERNATIONAL HAWALA CONFERENCE, APRIL 3-5

REFS: A) 02 ABU DHABI 2522
B) ABU DHABI 1000

¶11. (U) Classified by Deputy Chief of Mission Richard A. Albright for reasons 1.5 (B) and (C).

¶12. (C) Summary and comment: More than 350 participants from Latin America, Asia, Europe and the United States attended the Second International Hawala Conference, April 3-5 in Abu Dhabi, sponsored by the UAE Central Bank and in collaboration with the IMF. The Second Hawala Conference followed the very successful First Hawala Conference in May 2002 (ref A). At the close of this week's forum, the UAE Central Bank Governor and other UAEG officials urged the participants to consider drafting "best practices" or international guidelines for the regulation of the hawala sector. It was clear from discussions earlier during the week, however, that many governments continue to grapple with the definition and scope of hawala within their respective territories, as well as with the modalities and legalities of regulating informal transfer systems. As in the first Hawala Conference, no current or former hawaladars spoke at the forum.

¶13. (C) Summary and comment continued: A U.S. delegate who attended the first Hawala Conference noted that this week's event represented a huge leap forward in the UAEG's acknowledgment of its own hawala problem. Only three years ago, the UAEG was reluctant to admit that terrorists could exploit the country's formal and informal banking networks. The Second Hawala Conference, although it fell short of producing international standards, demonstrates that the UAEG intends to take an active role in the international effort to examine and regulate informal remittance systems. End summary and comment.

Presentations: Central Banks, Police, Private Sector

¶14. (SBU) FinCEN Senior Policy Adviser William Langford led the U.S. delegation consisting of representatives from State, IRS, and ICE. Mr. Langford provided an overview of U.S. anti-money laundering regulations in a session on "The Experience of Hawala Remitting Countries." In a subsequent session, Department of Homeland Security Program Manager for Financial Investigations David Eoff, likewise, described the challenges U.S. law enforcement authorities face combating money launderers and hawaladars. Interestingly, during the same panel discussion, Dubai General Police official Younes Al-Muallem claimed that Dubai bankers believe the Central Bank's anti-money laundering regulations are ineffectual and administratively burdensome.

¶15. (SBU) The UAE Central Bank moderated a relatively contentious panel of representatives from the UAE's largest exchange houses and private bankers. While the private sector reps acknowledged the need to monitor hawala, they suggested that the Central Bank's administrative requirements for hawaladars only serve to drive them further underground. The CEO of the UAE Exchange House boasted about his organization's compliance with UAE Central Bank regulations, and described UAE Exchange's award program (similar to a frequent flyer program) that stores a repeat customer's biographic data and transaction history for 10 years. He said that the cost of

transferring money through formal remittance systems has decreased, making the hawala system less attractive to foreign workers. UAE Exchange will send money anywhere in the world -- even to a private residence -- for 25 dirhams (USD 6.82). He claims Western Union's commissions are now less than 8 percent, and competitive with many local hawaladars.

¶6. (SBU) The UAE Central Bank described the UAE hawala regulation system at the close of the conference. Based on the Abu Dhabi Declaration (ref A), the current hawala regulation system seeks to identify hawaladars, encourage them to submit records of all financial transactions, and forward suspicious transaction reports (STRs) to the Central Bank, as appropriate. It is noteworthy that, while many countries gave presentations on their national anti-money laundering regulations, the UAE was the only country to describe a regulatory system aimed specifically at hawala brokers. The UAE Central Bank has received 118 registration applications from hawaladars since April 2003, and issued 101 certificates. Ninety hawaladars submitted reports to the Central Bank during the same time period, but no STRs have been filed. Some audience members claimed that the lack of STR filing by hawaladars here is evidence that the UAE system doesn't work, and does nothing to reduce the potential for abuse of the system by terrorists. The Central Bank did not offer any estimate on the number of unregistered hawaldars that operate outside the purview of UAE authorities.

¶7. (U) Other presentations included an overview of the money laundering systems in various East Asian, South Asian, and Latin American countries, and the perspective from multilateral institutions, such as the IMF/WB, FATF, the United Nations Office on Drugs and Crime, and BIS.

Abu Dhabi Declaration II?

¶8. (C) On April 5, the Central Bank Governor and other UAEG officials urged the participants to consider drafting "best practices" or international guidelines for the regulation of the hawala sector. The FATF representative privately told Econoff that his organization would oppose such an effort. "FATF should be the only organization to draft international standards for hawala."

¶9. (C) It also was clear from the previous two days of presentations and discussions that governments continue to grapple with the definition and scope of hawala within their respective territories. Brazil, notably, refused to agree to any statement that recommended additional regulation of the hawala industry because hawala is illegal in Brazil and, therefore, "does not exist." Nevertheless, the general consensus of all the participants (which also is reflected in the conference statement) was that a single approach to regulating hawala may not be appropriate -- "one size does NOT fit all," said the delegate from Egypt.

¶10. (U) Begin text of declaration.

The conference acknowledged and reaffirmed the important achievements of the First International Conference on Hawala as set out in the Abu Dhabi Declaration On Hawala (May 2002).

The conference recognized the key role that hawala and other informal funds transfer (IFT) systems play in facilitating remittances, particularly those of migrant workers. It noted, as well, the significance of IFT systems as an integral part of the international financial system.

A major outcome of the conference was its contribution in increasing awareness of the role of IFT systems. Participants emphasized that IFT systems need to be understood against the diversity of socio-cultural, legal

and economic contexts. Nevertheless, IFT systems, like other parts of the financial system, can also be misused for illegal purposes, and participants therefore re-emphasized the need for transparency and traceability of financial transactions. Furthermore, to acknowledge the work of the Financial Action Task Force (FATF) in development standards and best practices in this area, the conference highlighted the range of experience, practices and approaches that could apply.

The conference identified the following challenges in implementing IFT regulatory regimes:

- Overcoming imperfect information on the functioning IFT systems;
- Ensuring authorities have adequate resources in dealing with this issue;
- Designing regulatory solutions that are proportionate to the risks and sensitive to possible unintended consequences.
- Avoiding over-regulation that might drive IFT operations underground; and
- Demonstrating to the participants in IFT systems that the benefits of regulation outweigh the costs.

With the aim of addressing these challenges, the conference concluded that there was a need to:

- Gather and analyze information on IFT systems and their operations;
- Engage in a dialogue with IFT providers and users to develop constructive solutions;
- Conduct outreach to raise the awareness of the regulated community and public to IFT issues; and
- Remove any impediments to cost-effective, reliable and convenient transmission of funds in the regulated financial sector.

Where IFT systems are permitted, countries should as a first step register and/or license IFT operators. Further anti-money laundering and combating the financing of terrorism (AML/CFT) requirements should then be implemented in the IFT sector by countries according to their capacity.

Finally, the conference encouraged the FATF and the international financial institutions to take note of the conclusions of this conference and work to develop further guidance.

The conference expressed its gratitude to the Government and Central Bank of the United Arab Emirates, and the International Monetary Fund for organizing this conference.

End text.

Wahba